




Determinants of Owner-manager Competencies for Small Business Operations: Evidence from a Small Restaurant Business in Tanzania

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Abstract

This study examines the influence of owner-manager demographic characteristics on attainment of their competencies in Tanzania, because there are scant empirical evidences on the same. The data used in this study were obtained through a survey of 392 small restaurant businesses from Ilala and Dodoma in Tanzania. Information was collected from the owner-managers of these entities by using structured questionnaires. Competencies of the owner-managers were measured subjectively by assessing their ability to perform entrepreneurial, managerial and functional works. Thus, the study uses Structural equation model to analyze the latent variable data collected. Study results have shown that among the demographic characteristics of the owner-manager, formal education and family background in doing business are more important in explaining how competent an owner-manager is in all three competencies. Furthermore, age of the owner-manager is very important in explaining how competent the owner-manager is in terms of managing the business while their industrial working experiences are more important in explaining the owner-manager ability to fulfill functional activities. These results imply that, whoever wants to operate the small restaurant business should try to understand their demographic characteristics. That is, to match themselves with the competencies of fulfilling entrepreneurial, managerial and functional activities or decide on any other way of compensating for their weaknesses for better business performances.

Keywords: Owner-manager, Demographic characteristics, Entrepreneurial, Managerial, Functional, Competencies.

JEL Classification: M5, M10, J1, M13.

1. Introduction

In order for a business to perform successfully for a long term, individual competencies as the determinant tool to the performance of businesses should be ensured by the owner-manager's competence in the entrepreneurial, managerial and functional areas (Becker, 1964; Bird, 1995; Frese, 2000; Ahmad *et al.*, 2011). The determinant on how the individual attains competencies to affect the business depends on several issues. Literature shows that demographic characteristics like education, work and life experiences of an individual can help to attain competencies that are suitable for the business organization which could become the contribution of the individual towards a successful performance for the organization (Walker *et al.*, 2007). To make use of attained competencies, employees of the large organization are selected through interviews based on individuals with best competence that suits the position being applied for and are backstopped with customized training and workshops that help to determine their competencies to perform (Samwel, 2018).

Small business has its different experience; the competencies to perform are based on owner-manager himself. Unfortunately, in the majority of small businesses owner-managers initiate the business without strategically being interviewed if they have or not any competencies for the business performance before initiating the business (Webster *et al.*, 2005). For most of the owner-managers, their prime motive in initiating a business is to earn income as an alternative survival endeavor after being disqualified from the established competences of formal employments (Walker *et al.*, 2007). It is also acknowledged that small business owner-managers have low formal education levels compared to managers of larger businesses, and they participate less in competency development and training activities (Billett, 2001; Bartram, 2005). Furthermore, just by the fact that most of small restaurant businesses are dominated by owner-managers with no profession of restaurant management and many of whom have been disqualified from formal employment, their businesses are merely alternative survival endeavors to

simply fulfill their needs; hence their determination towards attainment of required owner-manager entrepreneurial, managerial and functional performance competencies appear different.

Despite their inclusiveness to the wider range of society they serve in terms of self – employment, provision of services and an extended employment opportunity that preserves the local economic development of the country, for the small businesses, in which competence to perform is based on the owner-managers, their determinants has not been visualized (Bird, 2002; Inyang and Enuoh, 2009). As a result, most of these businesses suffer the entry and exit syndrome, but also can hardly advance to medium or large size (Tundui, 2012).

This study values the importance of owner-manager competence for necessary performance of the business operation. They are only vision bearer for performance and long-term success in their small businesses. Owner manager competence in terms of knowledge, skills and attitude are acquired through intuition and by learning to which this study demonstrates how the demographic characteristic can determine owner manager entrepreneurial, managerial and functional competencies (Becker, 1964; Bird, 1995; Ahmad *et al.*, 2011). This will help the owner-manager and the government to arise in facilitation of the development of small businesses. Therefore, this article aims at providing empirical evidence from Tanzania on the extent to which demographic characteristics owned by the owner-manager influence the attainment of the entrepreneurial, managerial and functional competencies.

2. Literature Review

The characteristics of the owner-manager has been regarded as the most influential factors toward the attainment of the individual competencies (Becker, 1964; Bird, 1995; Ahmad, 2007; Santos, 2011). There has been reliable evidence that one factor results into different development of competencies basing on the learning environment and other individual characteristics (Reuber and Fischer, 1994; Quiñones *et al.*, 1995). Therefore, demographic factors such as industrial working experiences, formal education, and family background in doing business, age and sex of the owner-manager have been discussed in relation to the attainment of the competencies necessary for business performances.

2.1. Industrial Work Experience

Theoretically, industrial work experiences influence the attainment of individual competencies (Becker, 1964). Literature also shows that industrial working experience helps the individual to learn by doing and with the accumulated practices, to attain the necessary competencies (Dyke *et al.*, 1992; Sarwoko *et al.*, 2013). However, these researches did not show clearly the contribution of industrial working experiences to each competency required by owner-managers. Basing on the fact that small restaurant business is operated by an individual, and each competency contributes differently to the performance of the business, the determinants of entrepreneurial, managerial and functional competencies which have been neglected for long are still more important to find out (Ahmad, 2007; Wickramaratne *et al.*, 2014).

2.2. Formal Education

Human capital theory states that education is one of the key investments that influences the attainment of owner's competencies (Becker, 1964). When an owner increases his/her education level, s/he is expected to gain more stock of human knowledge which increases the ability to run the business successfully (Mitchelmore and Rowley, 2010; Sarwoko *et al.*, 2013; Mahadalle and Kaplan, 2017). However, it is difficult to generalize these findings as the attainment of competencies from education investment depends on the type of competencies to be attained and the education environment (Reuber and Fischer, 1994; Quiñones *et al.*, 1995). This study therefore, goes far in contributing to the literature, the effect of formal education on attainment of entrepreneurial, managerial and functional competencies.

2.3. Family Background in Doing Business

Individuals determine their own social and personal value based on how we stack up against others (Festinger, 1954). Children determine their competencies from their referees who are the parents or guardians. Evidence indicates that, some of owner-manager competencies are learned and acquired through observing parents and relatives doing business or through participating in the family business (Niittykangas and Tervo, 2005; Mungai and Velamuri, 2011). This study also aimed at finding the influence of family background in doing business on the attainment of owner-manager competencies.

2.4. Age of the Owner-Manager

Age has been an important characteristic used as one of the important variables in grouping individuals in a contemporary social science research and explains differences among them. Literature shows that, older owner-managers are logically expected to attain more necessary competencies because they have more of experience, have gone through many challenges, which make them strong and confident (Raposo *et al.*, 2008; Isaga, 2012). In contrast, evidence shows that younger owner-managers are more energetic, have higher ambitions and are more probable to be dedicated to working long hours, which are generally necessary competencies for business performance (Storey, 1994; Woldie *et al.*, 2008). On the other way, Storey (1994) showed that middle-aged individuals are comparatively likely to be experienced and more energetic to work than younger or older owner-managers. What is not yet clear is at what age the owner-manager archives all necessary competencies for business performance. This calls for more research in order to understand more the various differences in age of the owner-manager at which owner attains the required entrepreneurial, managerial, and functional competencies.

2.5. Sex of the Owner-Manager

Literature indicated various demographic variables as the factors influencing owner's competencies, but very few studies considered the influence of sex on the attainment of owner's competencies (Sajilan *et al.*, 2015). A research indicates that male and female have different socialization experiences, which shape their behaviour

towards the operation of the business. Furthermore, females have less competency to operate a business than males (Raposo *et al.*, 2008). Thus, these differences predicted to affect the ability to attain competencies in operating the business (Díaz-García and Jiménez-Moreno, 2010; Yordanova and Tarrazon, 2010; Kefale and Chinnan, 2012). Furthermore, researchers indicate that, male and female are reported to have different motives and perception in initiating a business (Manolova *et al.*, 2007). Females are said to have low motives toward the business compared to males. The kind of motivation an individual has affects development of competencies for business performance (Ali and Mahamud, 2013). Therefore, differences in motives in initiating a business lead to the different efforts in developing competencies (Cliff, 1998). For example, females perceiving business as a cooperative network, they make themselves to have more of managerial competencies in the business than males (Madichie and Gallant, 2012).

3. Methodology

3.1. Research Approach and Design

This study examines the influence of owner-manager demographic characteristics on the acquisition of the competencies necessary for performance of small restaurant businesses by using the quantitative method approach. Since this is a population-based survey, we have used cross sectional design to collect data on the entire study population.

3.2. Sampling

Our study surveyed a random sample of 392 entities from 459 small restaurant businesses with the specified criteria within the municipalities. Moreover, to avoid the diversity of the results, owner-managers were selected from the small restaurant business with 1-10 employees, with a 5-20 million capital and being in operation for at least three years and not more than 10 years. This is because most of the owner-managers are found within the business with such characteristics. Furthermore, within this range of business characteristics, owner-manager competencies are more needed than in large businesses where there are more of specialized employees with necessary competencies who can assist the owner. The selection of the small restaurant businesses was from the original list of licensed small restaurants businesses within Ilala and Dodoma municipality.

3.3. Structured Questionnaire

Since this is a survey based research, data was collected through a structured questionnaire. Moreover, proper questionnaires design is vital for data quality and minimisation of the measurement error. Therefore, as the interview involved owner-manager within the local community, the common language used is “Kiswahili”. Furthermore, after the design of the survey questionnaire, the instrument was subjected to pilot study in order to; first, guarantee the reliability of study results; second, ensure clarity and relevance of research instruments and methodology; third, test if the variables and measures were suitable. The pilot study was followed by refinement of the questionnaire; the original questionnaire was subjected to changes as per correction from the pilot study. The following changes were made; shortening of questionnaire and questions which were found to be ambiguous were dropped. Furthermore, refining the questionnaire which included, rephrasing and sequencing of questions was taken into account to ensure that all respondents have a common understanding of the questions.

3.4. Owner-Manager Competencies

Competencies are overall necessary skills and knowledge owned by an individual for the betterment of the performance. It is the ability of the individual to conduct the specified activities successfully. Owner-manager competency measures have been adopted from Man (2001) and grouped as proposed by Ahmad *et al.* (2011). Therefore, this study has measured the owner-manager competencies basing on the three main responsibilities of an owner-manager in the business. That is, entrepreneurial, managerial and functional competencies.

For the purpose of this article, and taking into account the above explanation, owner-manager competencies articulated in terms of entrepreneurial, managerial, and functional is the dependent variable. This measure required the owner-manager to indicate their level of agreement on being able to undertake the described entrepreneurial, managerial and functional activities. Five scales were used for this purpose: strongly disagree, disagree, neither agree nor disagree, agree, strongly agree. For that way, they were indicating the competency they have for performing prescribed activities.

The Independent Variables include the variables representing formal education, industrial working experience, and family background in doing business, age and sex of the owner-manager. Their measurement are given in table below

Table-1. Measurement of the variable

	Independent variable: Owner-manager demographic characteristics	Measurement
1	Formal education	Categorical variable measured in level of education
2	Industrial work experience	Continuous variable measured in years of experience in food related businesses
3	Family background in doing business	Dummy variable measured as the owner-manager having a family background in doing business as Yes or No
4	Age of the owner-manager	Continuous variable measured as the time of life of the owner-manager in terms of years since born.
5	Sex of the owner-manager	Dummy variable measured as the sex of the owner-manager, either male or female.

Source: Developed from Literature Review, 2017

3.5. Model Specification

The objective of the study was to examine the influence of owner-manager characteristics on acquisition of owner-manager competencies. Basing on the nature of the study variable, specifically on the nature of dependent variable (owner-manager competencies) the structural equation modeling (SEM) was found to be appropriate for data analysis of this research. SEM has been used since it has the ability to model the relationship that has the unobserved variable. Furthermore, it has the advantage of examining complex patterns of relationship among the construct in an integrative way.

Structural Equation Modeling (SEM) was performed through the STATA 15 software. SEM is the technique that combines confirmatory factor analysis (CFA) and regression analysis. CFA is the process of validating latent (unobserved) construct. Since the study objectives include the latent variable (owner-manager competencies) the researcher performed CFA for the latent constructs in the study before modeling their inter-relationship in SEM by using regression analysis.

4. Results and Discussion

4.1. Confirmatory Factor Analysis

To examine the influence of owner-manager demographic characteristics on the attainment of their competencies; we first run confirmatory factor analysis among the owner-manager competencies (entrepreneurial, managerial and functional) construct. Confirmatory factor analysis was meant to test whether the measures of these construct are consistent with the researcher's understanding of the nature of that construction. Likewise, all measurement models must be validated and accepted prior to modeling the structural model.

Table-2. The CFA report for every construct in the model

Construct	Item	Factor Loading
Entrepreneurial competency	Processing food and services that customer wants	0.93
	Processing food that brings benefit to customers	0.98
	Sell food at a cheaper price	0.99
	Take new problem as an opportunity	0.99
	Assess the trend of small restaurant customers	0.99
	Prioritize work in alignment with the business goal	0.99
Managerial competency	Lead employees	0.98
	Motivate employees	0.99
	Delegate	0.94
	Interact with customers	0.89
	Networking	0.99
	Use of business support services	0.96
	Family support	0.90
Functional competency	Use modern processing facilities	0.92
	Use special knowledge in food processing	0.93
	Offering delivery services	0.90
	Visibility during processing of food	0.95
	Design restaurant environment	0.92

Source: Data analysis, 2017

In this study, we had 3 dimensions which are entrepreneurial competencies (6), managerial competencies (7) and functional competencies (5). According to [Awang et al. \(2015\)](#) the factor loadings for each item should be 0.6 or higher for an established item. It is apparent from [Table 2](#) that, factor loading are above 0.6. Therefore, confirmatory factor analysis shows that all of the 18 measuring items from three competencies are relevant and were retained for analysis.

The analysis goes on with the examination of the fitness indexes. Therefore, in order to retain or reject the hypothesized model, incremental fits, absolute fits and parsimonious fits were examined. The examination of the fitness indexes as presented in [Table 3](#) below indicates that the indexes values obtained meet the required level of the model fit. Therefore, we confirmed that the data fit well the model.

Table-3. The Fitness Indexes for the polled Measurement Model

	Name of category	Name by index	Index value	Level of acceptance	Comments
1	Absolute fit	Root mean square of error approximation (RMSEA)	0.075	<0.08	The required level is achieved
2	Incremental fit	Turker-lewis index (TLI)	0.929	>0.90	The required level is achieved
3	Parsimonious fit	Chi-square/degree of freedom (Chisq/df)	3.250	<0.30	The required level is achieved

Source: Data analysis, 2017

4.2. Structural Model

After the fitness an index was archived, the study goes on modeling for structural equation model. The exogenous variable industrial work experience, family background, education level, age and sex of the owner-manager have been regressed to latent endogenous variable entrepreneurial, managerial and functional competencies in one structural model.

Table-4. Results of the effect of owner-manager characteristics on development of owner-manager competencies

		Coef	Std.err	z	P value
Entrepreneurial	Age	-0.0145	0.0044	-3.25	0.001
	Industrial working Experience	-0.03363	0.01126	-2.99	0.003
	Female	0.00122	0.075955	0.02	0.987
	Secondary	2.5132	0.1982	12.68	0.001
	Collage/university education	2.2763	0.20588	11.06	0.001
	Family background (yes)	0.1727	0.07497	2.30	0.021
Managerial	Age	0.019	0.006	3.02	0.003
	Industrial working Experience	-0.036	0.015	-2.27	0.023
	Female	0.1709	0.1078	1.59	0.113
	Secondary	3.09	0.27	11.34	0.001
	Collage/university education	2.78	0.28	9.76	0.001
	Family background (yes)	0.27	0.106	2.54	0.011
Functional	Age	-0.012	0.004	-2.48	0.013
	Industrial working Experience	0.028	0.012	2.33	0.020
	Female	-0.06	0.08	-0.83	0.408
	Secondary	1.870	0.212	8.79	0.001
	Collage/university education	1.73	0.221	7.83	0.001
	Family background (yes)	0.30	0.82	3.67	0.001

Source: Data analysis, 2017

We found that the variable with P value less than the conventional value of 0.05 and with positive coefficient contributes significantly to the attainment of owner-manager competencies.

5. Discussion

Our research objective focused on the determinants of owner-manager competencies. Our results support greatly the expected notion that secondary and college level education have positive effects with respect to attainment of owner-manager competencies both in terms of entrepreneurial, managerial and functional. These results are in accord with earlier observations which showed that competencies of small business owners can be improved through education programs (Ahmad, 2007; Mitchelmore and Rowley, 2010; Sarwoko *et al.*, 2013). However, the results of this study are in contrast to the former reviewed literature, for instance Wickramaratne *et al.* (2014) who revealed a negative relationship of formal education competencies of the owner-manager. An explanation for this may be that well-educated owner-managers are expected to make logical decisions that might be advantageous in improving performance.

From the findings we observed that industrial working experiences of the owner-manager is important in explaining the attainment of functional competencies. The findings of this study might be related to the fact that, industrial work experience helps an owner-manager to learn specific ways of operating the specific business. It is encouraging to compare these findings with that revealed by Katozai (2005) and Nsubuga (2009) who revealed that as one acquires more work experience, s/he acquires more skills, techniques and methods specifically in improving performance capabilities. However, our results found negative relationship on the industrial working experiences and attainment of necessary entrepreneurial and managerial competencies. These results may be because; it takes owner-manager energy, creativity, risk taking and motivation to act like attaining such competencies. Also, this study speculates that, the result from this study can be caused by failure of the owner-manager to use previous experience.

The results also revealed that, there is a positive relationship between the owner-manager coming from the family with background in doing business and attainment of owner-manager competencies in terms of entrepreneurial, managerial and functional. This can be explained by the fact that, owner-managers who came from families with background of doing business are more likely to learn and adopt skills from their parents or guardians in the ways of operating the business. The findings of this study are in line with that of Niittykangas and Tervo (2005); Mungai and Velamuri (2011) who provided some evidence that the competencies of an individual toward performance in their business are obtained through observing their parents and relatives or through participating in the family business.

Our result also supports that there is positive and significant relationship on the influence of age of the owner-manager and the attainment of managerial competencies. It also shows that, the ability of the owner-manager to attain managerial competences increases slightly at age 24 until the age 36 where it sharply increases up to age 65 when it starts to decrease. A strong relationship between age of the owner-manager and managerial competencies has been reported in the literature (Littunen and Virtanen, 2006). This result may be explained by the fact that, as owner-manager gets older, he/she acquires more experiences from the business as well as from the family. However, age of the owner-manager negatively influences the attainment of entrepreneurial and functional competencies. This finding corroborates the idea that, as the age of the owner-manager increases risk aversion increases. The reason for this may have something to do with the old individual becoming incapable of handling the challenges of new technology, innovation, searching for markets and obsolescence of their education level. However, the results are different with Raposo *et al.* (2008) who showed that, with increased age, individuals get more entrepreneurial competencies in identifying opportunities.

In relation to the variable sex, the result showed that in compared to male owner-manager; female owner-managers have a negative significant relationship with the attainment of both competencies. For this result, this study considers it to be due to the difference in motives for initiating a business among male and female owner-managers. It has been comparably shown that female owner-managers operate their business with lower motivation than their male counterparts. This is from the fact that, the motives to initiate the business derives the necessary efforts toward fulfilling it. The findings of this study are consistent with those of other studies which suggest that, women's skills and knowledge of entrepreneurial activities are below average (Naudé, 2013).

6. Conclusion and Policy Implication

The aim of the current study was to determine the influence of owner-manager demographic characteristics on attainment of their entrepreneurial, managerial and functional competencies. Based on survey data collected from 392 owner-managers of small restaurant businesses from two regions in Tanzania, it became clear that owner-manager with secondary and college level education and coming from families with a background in doing business have greater influence on the attainment of entrepreneurial, managerial and functional competencies. Specifically, male owner-manager influences the attainment of entrepreneurial and managerial competencies. In addition, age of the owner-manager influences the attainment of managerial competencies while industrial working experience and female owner-manager significantly influence the attainment of functional competencies.

The evidence from this study implies that attainment or failure to attain entrepreneurial, managerial and functional competencies can be traced back to demographic characteristics of the owner-manager. Therefore, whoever wants to start the small restaurant business should try to understand their strength and weaknesses that are coming from own demographic characteristics. In that way, it would be easier for owner-manager to match themselves with the task of running a business or decide on any other way of compensating for their weaknesses.

This research extends knowledge on the previous studies that the attainment of necessary entrepreneurial, managerial and functional competencies for small restaurant business performance is greater from owner-manager who comes from family with business experiences and has at least secondary education level. The study also contradicts the common opinion and previous research that industrial working experiences of the owner-manager are important in developing entrepreneurial and managerial competencies that are necessary for business performance. It is not only important for the owner-manager to have large number of years in industry experiences, but the ability to learn and acquire the competencies through that time.

It should also be noted that while the present study makes noteworthy contributions, there are important limitations which need to be considered for future research. The study findings are limited to the collection of the information on family background on doing business. The study did not cover the kind of the business the family was engaged on and whether the owner-manager participated in the business or only observed the family doing the business. It would be interesting to assess the effect of the kind of business the family was engaged in if the owner-manager actually participated in the business or only observed the family doing the business.

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